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SUBJECT: INVESTMENT SCANDAL WRACKS CONGRESS

Classified By: Ambassador James M. Derham for reasons 1.4 (b & d).

Summary

11. (C) On June 9, President of Congress Eduardo Meyer, a member of President Alvaro Colom's National Unity of Hope (UNE) Party, announced that a member of his staff illegally transferred approximately \$11 million of public funds to a private investment house, MDF, provoking a firestorm of public and congressional criticism. Meyer, who consequently is taking a two-month leave from Congress, maintained his innocence, and told us he would return to Congress as an independent, but would not seek to recover the presidency. He accused First Lady Sandra de Colom of orchestrating his ouster. On June 12 the scandal expanded to former President of Congress Ruben Dario Morales, who allegedly received a \$40,500 commission from MDF in 2007, also for investing congressional funds there. In a possible attempt to smear the opposition, the Superintendent of Banks then announced that opposition leader Otto Perez Molina had received \$93,000 from MDF. However, Perez had been out of Congress for two years at the time. It appears that some senior congressional personnel, perhaps with the connivance of different congressional presidents, have taken advantage of weak budgetary oversight to invest public funds for private gain.
End Summary.

Meyer's Embattled Tenure As President of Congress...

12. (C) Having served only one prior term in Congress, Eduardo Meyer, then Secretary General of President Colom's UNE party, was elected President of Congress in January 2007 with only lukewarm support from President Colom. (Bio note: Meyer is a medical doctor who was Rector of Guatemala's public San Carlos University and also served as Minister of Education.) Five months into his tenure, he was widely viewed as a weak and ineffectual congressional leader. Meyer's purposeful distancing himself from his party undermined his position.

...Ends Over Corruption Allegations

13. (C) In February 2008, Meyer's private secretary, Byron Sanchez Coroz, together with Congress's Chief Financial Officer, Jose Benvenuto Conde Fernandez, apparently illegally, transferred approximately \$11 million in congressional funds to a private investment house, Mercado de Futuro (MDF). Under the terms of the deal MDF would manage the funds for a year in international futures markets in exchange for a nine percent return on the investment plus commission fees. Sanchez, who also served as Private Secretary to the last President of Congress, was implicated in wrongdoing in 2007 and has a criminal record.

Meyer Asserts Innocence

14. (U) Meyer claimed to have had no knowledge of the transaction until shortly before he fired Sanchez on May 16.

On June 4, one day after Sanchez fled the country for the U.S., Meyer publicly broke the news of the transaction, insisting that he had already taken action to ensure that the funds would be returned to the Central Bank. Nonetheless, a political firestorm ensued, with the transaction dominating press. Congressional bench leaders, including Mario Taracena of Meyer's own UNE party, jointly called for his resignation.

The Attorney General's office issued arrest warrants for Sanchez and Conde, both of whom are now fugitives. The Supreme Court opened a preliminary hearing to consider whether Meyer's congressional immunity should be rescinded. Meyer publicly said he would take a two-month leave of absence from Congress and its presidency while he cleared his name. President Colom made clear he would remain neutral as events unfold.

15. (C) Meyer told Pol/Econ Couns June 12 that he was innocent, and produced bank documents to buttress his claim that Sanchez and Conde effected the transaction without his knowledge. He said Sanchez and Conde's intention had been to pocket the interest that Congress' \$11 million would earn, as well as commissions from MDF. He accused former President of Congress Ruben Dario Morales of having begun Congress' illicit relationship with MDF. Meyer said First Lady Sandra de Colom had seized on his announcement of his subordinates' wrongdoing to orchestrate his ouster, with the complicity of two leading UNE Members of Congress -- bench leader Mario Taracena and First Vice President of Congress Roberto Alejos, a close confidante of the Coloms. He ascribed Sandra de Colom's hostility to him to his unwillingness to do her bidding in Congress. Once the UNE turned on and expelled Meyer from the party, opposition leaders were quick to join in calling for his ouster from the congressional presidency. Meyer said he would return to Congress as an independent, but would not seek to recover the presidency.

Another President of Congress Implicated

16. (U) Also on June 12, the Superintendency of Banks announced that former President of Congress Ruben Dario Morales received a \$40,500 commission from MDF in exchange for Sanchez's separately having invested \$2.2 million in congressional funds with MDF in 2007. Morales, who is still a Member of Congress, reportedly said he did not remember receiving the money, and contradicted himself regarding whether he knew about the investment. He publicly said prosecutors should not get side-tracked by the case in which he is implicated, but rather stay focused on the case against Meyer. As is the case with Meyer, the Supreme Court is now considering whether to rescind Morales' immunity.

FRG's Crespo Takes Over

17. (U) Meyer's leave of absence cleared the way for long-time FRG bench leader Aristides Crespo to take over as Acting President of Congress. Crespo is a loyal ally of former de facto President Rios Montt. An 18-year veteran of Congress, he is known as a hard-nosed political operative who is skilled at building coalitions and maintaining party discipline. As one of his first acts in office, Crespo said he would return responsibility for congressional finances to the First Vice President, Colom family friend Roberto Alejos.

Bank Superintendent Accuses Opposition Leader

18. (U) On June 15, Superintendent of Banks (and UNE party insider) Edgar Barquin announced that MDF in March had disbursed \$93,000 to Otto Perez Molina of the Patriot Party (PP), who lost the November 2007 election to now President Colom. Since Perez Molina is currently visiting Washington, PP bench leader Roxanna Baldetti responded on his behalf. She publicly countered that Barquin's announcement was "political blackmail." Baldetti confirmed that Perez had received such a check from MDF, but said that it had nothing to do with congressional funds. (Note: Perez Molina quit Congress in 2006.) Barquin told econoff he had "proof" of

Perez's alleged wrongdoing and hoped the Attorney General's Office would prosecute him.

Comment

19. (C) This scandal continues to dominate headlines in Guatemala. It has claimed one President of Congress, and could end the career of a former one (Morales) as well. Bank Superintendent Barquin's attempt to also sully opposition leader Perez Molina looks politically motivated at this point. While it is possible that Meyer is innocent, weak budgetary controls in Congress have undoubtedly tempted congressional leaders to personally profit from the investment of taxpayers' money. Meyer's fall means Colom's UNE party loses the Presidency of Congress. Already among the most discredited institutions in Guatemala, Congress' image has been further tarnished. As for the \$11 million, MDF has offered to return it, with interest.
Derham